

**ACTION SUMMARY**

**INVESTMENT COMMITTEE**

**April 19, 2018**

<b><u>Item</u></b>	<b><u>Action</u></b>	<b><u>Page #</u></b>
APPROVAL OF AGENDA	Approved	2
<u>APPROVAL OF MINUTES</u> March 22, 2018	Approved	3
EDISON VENTURES FUND IX	\$50 million	3
BERNHARD CAPITAL FUND II	\$30 million	4
HALDERMAN AG SMA	Increase SMA to \$75mm, extend investment period and agreement 2 years	5
Q1 2018 PROXY VOTING REPORT	Accepted	6
Q4 2017 INFRASTRUCTURE REPORT	Informational	6
Q1 2018 COMMISSION REPORT	Informational	6
RESCHEDULE SEPT MEETING	September 21, 9:30 a.m.	6
OTHER REPORTS AND DISCUSSION	None	

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**INVESTMENT COMMITTEE**

**April 19, 2018**

**1. a. CALL TO ORDER**

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at 1:00 p.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

**Members Present:**

Mr. H. Russell Goff, Chair  
Ms. Mary Lou Cameron  
Mr. Larry Magid

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Mark Canavan, Real Estate, Infrastructure and Real Assets Portfolio Manager  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Mr. Ian Oldham, Portfolio Manager

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Howard Kaplan, Hamilton Lane  
Mr. Asif Hussain, CBRE Caledon  
Ms. Noi Spyrtatos, CBRE Caledon  
Mr. Kevin Tatlow, Top Tier  
Ms. Judith Beatty, Recorder

**b. Approval of Agenda**

**Mr. Magid moved approval of the agenda, as published. Ms. Cameron seconded the motion, which passed unanimously.**

c. Approval of Minutes: March 22, 2018

Ms. Cameron moved approval of the March 22 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff.

2. EDISON VENTURES FUND IX – PRIVATE EQUITY

[Presenters: Steve Neel and Top Tier advisor Kevin Tatlow.]

Mr. Neel presented staff's recommendation of a \$50 million investment in Edison Partners IX, L.P.

Mr. Neel said this would be the third time the NMERB has committed to an Edison fund. He said the Edison funds make up one of the strongest parts of the NMERB's growth equity portfolio. From inception to date, the net IRR on Edison Venture Fund VII (2010) is about 17 percent, and the net IRR on Edison Ventures Fund VIII (2015) is close to 27 percent.

-- Edison Partners is raising \$300 million for their ninth fund to make growth equity investments into early-revenue high-growth software and technology-enabled businesses.

-- The fund will invest primarily in the Eastern U.S. and focus on financial technology, healthcare information technology, and enterprise software. Edison seeks attractive deals at valuations lower than other growth equity firms by focusing on investments where they are the first institutional capital, allowing them to invest earlier than the majority of their growth equity peers.

-- Post investment, Edison works to add value through their "Edison Edge" platform designed to provide support to rapidly growing companies. The team has built a substantial platform to cater to the needs of its portfolio companies. This includes a network of executives and events focused on content to assist rapidly growing companies. During Fund VIII, Edison has put significant effort into events and portfolio company support through the Edison Edge programs.

-- Edison's sourcing practice seeks to identify attractive companies that have not yet received any institutional capital and are beginning to scale their businesses.

-- Edison's focus on companies in the Eastern U.S. provides exposure to growth companies at significantly lower valuations. The regional focus also permits the team to spend their time and energy where their network is strongest.

Mr. Jacksha noted a target of \$300 million with a \$350 million cap, and asked if they were likely to meet the target. Mr. Tatlow responded that, while the NMERB is extremely early in this fund, he thought Edison would probably hit the cap given the interest in this fund.

In discussion on staff's recommendation for approval, Mr. Neel stated that, while staff normally allows for a \$10 million additional capital commitment through secondary opportunities, the recommendation is more robust this time, at \$45 million. He explained that the NMERB has had multiple opportunities to get a secondary transaction through the Edison platform, and it is very possible that the NMERB could pick up a secondary LP position in this case.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$50 million to Edison Ventures Fund IX, L.P. for the Private Equity portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents and negotiation of final terms and conditions, and completion of appropriate paperwork. In addition, the Investment Committee grants staff discretion to invest an additional amount, not to exceed \$45 million, in secondary partnership interests offered by other limited partners in the Edison Funds VII, VIII, and IX, should they become available from time to time. Mr. Magid seconded the motion, which passed unanimously.**

### **3. BERNHARD CAPITAL PARTNERS FUND II – PRIVATE EQUITY**

[Presenters: Ian Oldham and Top Tier advisor Kevin Tatlow.]

Mr. Oldham presented staff's recommendation of a \$30 million commitment to Bernard Capital Partners Fund II (BCP).

-- BCP is a strong fit for the NMERB's private equity portfolio because of their strong track record, ability to create value, and the strategic fit in the portfolio. The NMERB has a preference for investments with groups that are led by operators who have had capital market success. Bernard Capital Partners is an excellent representation of that preference.

-- Prior to the founding of BCP, Mr. Bernard started the Shaw Group in 1987. Twenty-five years later, it grew to a firm with over \$6 billion in annual revenue and employed over 25,000 people, providing vertically integrated services across the industrial sector. During those 25 years, they completed 30 acquisitions that, as an investment, would have returned 8.1 times their capital. The Shaw Group was ultimately sold to Chicago Bridge and Iron for \$3 billion. Following that sale, Mr. Bernard and Mr. Jenkins, a former executive at Shaw, founded BCP to capitalize on the expertise and relationships they had developed at Shaw Group.

-- The strategy they seek to implement with Fund II is to look for investments in midsize companies that focus on energy, industrial and infrastructure services. BCP intends to build a diversified portfolio of investments to take advantage of the increasing demand for these services.

-- To date, Fund I has completed six platform acquisitions, which have returned 1.9x their cost at a 46 percent gross IRR as of December 31, 2017.

-- Fund II has set a \$1 billion target/cap.

-- BCP is one of only a few private equity firms focused on middle market services businesses catering to the industrial, infrastructure, and energy sectors, and has been able to source transactions on a proprietary basis.

Jim Bernhard, founding partner, appeared before the committee and made a presentation. Also present was Jim Weidner, placement agent with Metric Point Capital.

Mr. Bernhard stressed their focus on safety. He said that they have 18,000 people in their portfolio companies, and last year did not have a single lost-time accident, which is “phenomenal” in the industrial world.

Mr. Bernhard said they expect a 20 percent return on Fund II.

[Mr. Bernhard and Mr. Weidner left the room.]

Mr. Jacksha said the NMERB team has been focused on BCP since Fund I, so has done a lot of work on it already. He said they have a good track record, and he recommended approval.

**Mr. Magid moved that the Investment Committee approve a commitment of \$30 million to BCP Fund II, L.P. for the Private Equity portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents and negotiation of final terms and conditions, and completion of appropriate paperwork. In addition, the Investment Committee grants staff discretion to invest an additional amount, not to exceed \$10 million, in secondary partnership interests offered by other limited partners in the fund, should they become available from time to time. Ms. Cameron seconded the motion, which passed by voice vote.**

#### **4. HALDERMAN AGRICULTURE SMA – NATURAL RESOURCES**

[Presenters: Mark Canavan and consultant Howard Kaplan, Hamilton Lane.]

Mr. Jacksha noted that Halderman Agriculture has undergone a name change and is now called US Agriculture (US Ag).

Mr. Jacksha said the NMERB hired Halderman Agriculture in February 2013 to manage a separate account at \$50 million. They have invested \$37 million at this point, but the investment period has elapsed. The NMERB was planning to bring this forward later in the summer, but in the meantime, US Ag has found some opportunities that are more timely. He said the NMERB would like to increase the original \$50 million commitment by \$25 million and extend the acquisition period and management period for another two years.

Mr. Canavan noted that this is an open-ended separate account that is not discretionary by the manager. The NMERB retains discretion of execution of the purchase of the properties.

Mr. Canavan said Halderman is a third generation farm management company that goes back to the Depression. The account is set up so that they source transactions and find farm operating partners, and they do underwriting that he and Hamilton Lane consultant Howard Kaplan thoroughly review and over which they have final veto authority.

Mr. Canavan stated that, in 2016, the last time the NMERB renewed the contract, Halderman and Hageman Investments combined operations to create a fund complex. They still run separate accounts,

but are also raising an individual fund. However, it does not compete with the NMERB investments, as they are doing more row crop type of farming. Staff had some initial concerns about the merger, not seeing it as accretive to the NMERB's initiative to its investments, but the NMERB ultimately supported the merger. He and Mr. Kaplan continue to be pleased with their operating partners, deal sourcing, underwriting and performance, and continue to be selective about investments. He commented that it is still too early to assess returns. The current portfolio has five investments.

Mr. Jacksha said this is a manager the NMERB has been familiar with for a number of years. He said they have wisely put the money to work rather slowly, which is a prudent approach.

**Ms. Cameron moved that the Investment Committee approve an increase in the commitment to the U.S. Agriculture, LLC separate account from \$50 million to \$75 million. In addition, approval is granted for the two year extension of: (i) the investment period for the account to February 11, 2020, and (ii) the initial term of the Investment Advisory and Management Agreement to December 31, 2023, and (iii) the option on the subsequent term to December 31, 2026. Mr. Magid seconded the motion, which passed unanimously.**

#### **5. Q1 2018 PROXY VOTING REPORT**

Mr. Magid moved to accept the proxy voting report, as presented. Ms. Cameron seconded the motion, which passed unanimously.

#### **6. Q4 2017 INFRASTRUCTURE REPORT**

[Presenters: Mark Canavan and CBRE Caledon consultants Noi Spyrtatos and Asif Hussain.]

Mr. Hussain noted that the fair value of the infrastructure portfolio as of December 31, 2017, was \$347 million. The net IRR since inception (2008) was 5.8 percent. Ms. Spyrtatos said the IRR continues to creep upward, and they believe that will be the trend going forward as some of the earlier investments begin to show returns.

Mr. Hussain and Ms. Spyrtatos reviewed the status of investments in the portfolio.

Mr. Canavan discussed the status of a pending portfolio sale of Gateway Infrastructure Investments, now being managed by Corsair.

Mr. Hussain stated that CBRE Caledon is mindful of higher interest rates on the horizon and is looking at asset diversification and what underlying revenue streams are resilient to slower increases in interest rates.

#### **7. Q1 2018 COMMISSION REPORT**

[Informational.]

#### **8. RESCHEDULE SEPTEMBER MEETING**

The September meeting was rescheduled on Friday, September 21 at 9:30 a.m.

**9. OTHER REPORTS AND DISCUSSION**

None.

**10. NEXT MEETING: THURSDAY, MAY 24, 2018**

The meeting was scheduled at 1:00 p.m.

**ADJOURN**

Its business completed, the committee adjourned the meeting at 2:40 p.m.

Accepted by:



\_\_\_\_\_  
H. Russell Goff, Chairman